A7000-1
10/13/88

REAL ESTATE

Vol. 1, No. 10

OUTLOOK

October 1988

A Monthly Forecast for the Economy and Real Estate

FORECAST SUMMARY

- The effects of this summer's drought are finally having a measurable impact on the economy: the Commerce Department reported that a $12.2 billion decline in farm output pulled the real GNP estimate for the second quarter down by 1.2 percentage points.
- Government data shows that the unemployment rate dropped from 5.6 to 5.4 percent in September. While the September pace was strong, it lagged behind the average monthly increase of 345,000 jobs during the first half of 1988.
- In the midst of this continuing process of adjustment of the U.S. trade balance, the dollar will likely resume its downward trend of the last three years. This is likely as improvement in the trade deficit slows in coming months due to modestly slower manufacturing and export growth.
- While recent economic news has confirmed the U.S. economy is still growing, the effects of the Fed's monetary restraint earlier this year are increasingly being felt. Therefore, prospects are good for an environment of continued economic growth characterized by slow, steady improvement in the trade deficit, and a slowing in the rate of increase in interest rates.
- The most recent data shows that nearly two-thirds of homebuyers closing on home purchases during August chose an ARM. The availability of ARMs has helped buyers purchase larger, higher quality (and more expensive) homes than they could have qualified for with a fixed rate.
- After falling 5 percent in July, sales of existing single-family homes held their ground in August, increasing to a seasonally adjusted annual rate of 3.67 million units. The August pace was 1 percent above the July annual rate of 3.63 million units, and 7.6 percent faster than August of 1987.

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Forecasting & Policy Analysis Division
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HAPPY BIRTHDAY, DEAR CRA-ASH, HAPPY BIRTHDAY TO YOU!

ECONOMIC COMMENTARY

by
John A. Tuccillo
Chief Economist and
Senior Vice President
Real Estate Finance

Of course, this being the month of the first anniversary of Black Monday, I feel compelled to reflect on what has happened since. Edward Albee in *Zoo Story* has one of his characters note (after having reached Central Park by travelling south through Greenwich Village): "Sometimes ya gotta go a long way out of your way to get a little bit towards where you're goin'." In essence, in the past year, because of the crash and the ensuing financial market nervousness, we've done exactly as the Albee character suggests.

By now, we know that the crash did not bring down the economy, as advertised. Its systemic effects were localized in the Northeast and the combination of a strong economy and prompt Fed action kept the economy in general growing strongly. But we also know that the crash shattered the confidence of financial markets and created a world where rumors and shadows of rumors turned traders into dervishes. In a sense, the market seemed to be following Congress in that all it can do well is nothing or overreact. While the stock market didn't plunge as drastically as it did on October 19, there were many more 50-100 point days, and more frequent bond slumps and rallies.

Curiously, this nervousness, as dangerous as it seems, has produced a real stability in interest rates. Twice during the past year, the threat of increasing inflation has led to consensus forecasts of sharply higher rates. In the second instance, the Fed ratified these predictions by increasing the discount rate by a half point. Yet, although rates have drifted up and now stand higher than they were a year ago, we have not returned to the bad old days of 18 percent mortgages (or even 12 percent mortgages). Why not? Well, just like a cat doesn't wait to see the source of a sharp noise before it jumps, financial markets, driven by nervous profit-takers, move at the first hint of rate swings. The net result of this behavior is that catastrophes (no pun intended!) are averted and interest rate movements made more gentle.

All this suggests that the crash has changed financial markets. In reality, the crash was the last piece in a jigsaw puzzle that was constructed over most of the eighties. The application of advanced communications techniques to financial transactions set the borders of the puzzle, the opening of the U.S. economy to the rest of the world (ironically through a ballooned trade deficit) filled in the major features, and the change in trading behavior occasioned by the crash completed the scene. With anxious transactors hovering over computer screens around the world and receiving massive volumes of information, arbitrage in virtually all bond markets is a thing of the past (as is Ivan Boesky), significant news is acted on instantaneously and interest rate movements are dampened.

But let's take this a step further. The same jigsaw puzzle is shaping up on the real side of the economy, as well. Over the course of this decade, we have developed a variety of enterprises and even whole industries that are completely divorced from location. In a century, the economy's focus has moved from smelters in northern Minnesota to the steel mills of western Pennsylvania to the computer screen of anywhere, U.S.A. It's now a reality that mortgage processing can be done from northern Louisiana because the telephone makes it the equivalent of New York. And it makes sense to be there rather than New York because mortgage processors can be hired for a lot less.

This suggests a new view of the economy. For those businesses (and they are a growing presence in U.S. economic life) that need only a modem and an airport to operate, why not locate where labor and living costs are lowest? The last piece in the economic puzzle, then, is the behavioral change that will cause firms to relocate in areas of the country where the economy is in recession. In other words, the changes and lessons that have caused financial markets to operate in such a way that interest rate movements are dampened will be learned in the general economy. The result: a regional equalization of economic activity and an end to the "rolling recession" of the eighties.

Will this happen? Does it imply the end of the business cycle? Yes, and no. (Those are sequential answers, not the usual economist cop-out; my favorite color is *not* plaid.) The momentum of the marketplace, especially in a growing, technologically proficient, economy will finally convince the firms that can to take advantages of low cost, communications-sufficient areas. Local governments and civic groups will also recognize their advantages and convince firms that they possess that special niche. But the economy as a whole will move through booms and slumps, although like interest rates, these movements are likely to be of lesser magnitude.

All this sounds like a bold new economic outlook. In reality, it is very old. The technological and behavioral changes that have transformed, and are transforming, the marketplace are moving us closer to the world that Adam Smith dreamed more than two centuries ago. We may not be perfectly competitive, but the invisible hand is clearly at work. And this one may be digital but it has only electronic fingers. So let's wish a happy birthday to the crash. I'm almost glad it happened.

Outlook for the Economy and Real Estate

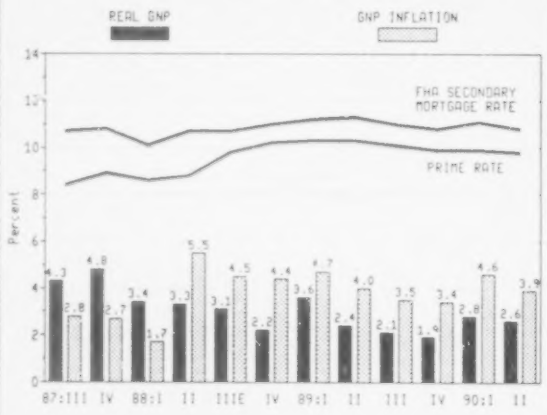
THE ECONOMIC OUTLOOK

The U.S. Commerce Department reported that the nation's total output of goods and services (GNP) advanced at an inflation-adjusted annual rate of 3.0 percent in the second quarter of this year. The effects of this summer's drought are finally having a measurable impact on the economy: the Commerce Department reported that a $12.2 billion decline in farm output pulled this real GNP estimate down by 1.2 percentage points. Roughly speaking, if the drought had not occurred, real GNP growth would have advanced at an annual rate of more than 4 percent in the second quarter. Still, this is a very strong rate of economic growth so late in the present economic expansion. The Commerce Department also announced that it plans to subtract 0.5 percentage points from its third quarter estimate to be released later this month, and it will shave 1.5 percentage points off its fourth quarter estimate as well. Therefore, the current forecast of an average annual rate of 2.6 percent real GNP growth for the second half of 1988 is actually an increase from the August *Real Estate Outlook*, because the September numbers include BEA's planned adjustments for the drought.

One of the most improtant indicators to watch has been the unemployment rate, which dropped from 5.6 to 5.4 percent in September. Non-farm payroll employment rose by 255,000 jobs to 106.7 million. Too fast a pace of job growth could mean the economy is overheating, a precursor to faster rates of inflation and higher interest rates. While the September pace was strong, it lagged behind the average monthly increase of 345,000 jobs during the first half of 1988. Further, all the job growth occurred within service-producing industries: the start of the school year increased public education employment by over 100,000 jobs. Employment in goods-producing industries fell by 9,000 jobs in September, the second consecutive monthly decline. Employment in goods-producing industries had increased for the past year and a half. The upshot of the employment report is the economy could grow at a modestly slower growth rate.

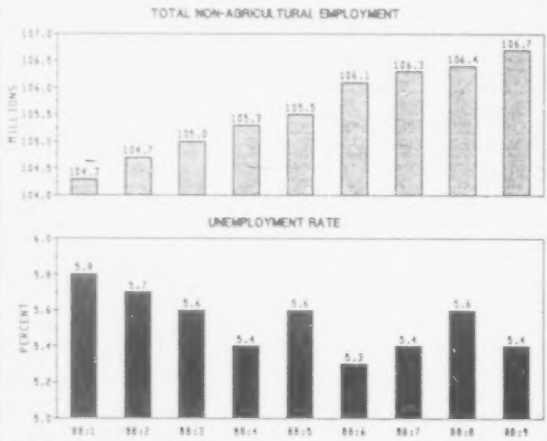
Another indicator of further economic growth is the recent gains in net exports (exports minus imports). The steady decline in the dollar since 1985 (until early 1988) has brought about declines in the merchandise trade deficit. While data on the trade deficit is lagged, it shows that the July U.S. trade deficit fell to $9.5 billion, an improvement of 28 percent over its June level. In the midst of this continuing process of adjustment of the U.S. trade balance, the dollar will likely resume its downward trend of the last three years. This is likely as improvement in the trade deficit slows in coming months due to modestly slower manufacturing and export growth. The combination of the pause in manufacturing employment job growth detailed in the employment report, and the sluggish growth of personal incomes (in an August report by BEA) creates an interesting outlook. First, the trade deficit will continue to improve, but not at a rate of 28 percent per month. Yes, slower manufacturing employment does imply less production of exports, but it also will cause slower growth in incomes of U.S. workers. Second, this slower income growth will curb import buying by U.S. consumers. The result could be less inflation here at home, and moderating interest rate increases.

GRAPH 1: THE ECONOMIC OUTLOOK



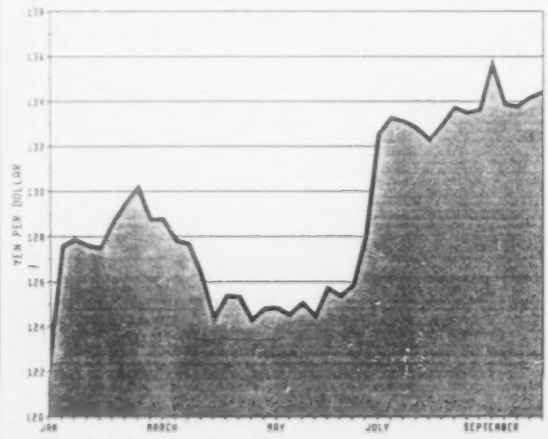
E NAR estimates(1988:III thru 1989:IV)

GRAPH 2: EMPLOYMENT CONTINUES TO RISE



SOURCE: Bureau of Labor Statistics.

GRAPH 3: THE DOLLAR WILL FALL AGAIN



SOURCE: Generale de Banque, New York.

The Federal Reserve's job has been made slightly easier by the most recent employment report. News that jobs are continually being created, but at a slower pace, could convince the monetary authority that U.S. economic growth is slowing modestly. This scenario, if played out, reduces the risk of faster rates of inflation and will possibly make the Fed less restrictive in its monetary policy. Over the course of 1988, the Fed has had to tighten the availability of credit, thereby raising interest rates, for fear that the U.S. economy is growing too quickly and could generate an accelerating rate of inflation. But while recent economic news has confirmed the U.S. economy is still growing, the effects of the Fed's monetary restraint are increasingly being felt. Therefore, prospects are good for an environment of continued economic growth characterized by slow, steady improvement in the trade deficit, and a slowing in the rate of increase in interest rates. The current forecast projects long-term interest rates to peak by the second quarter of 1989, with mortgage rates rising to just over 11 percent before declining through the remainder of the year.

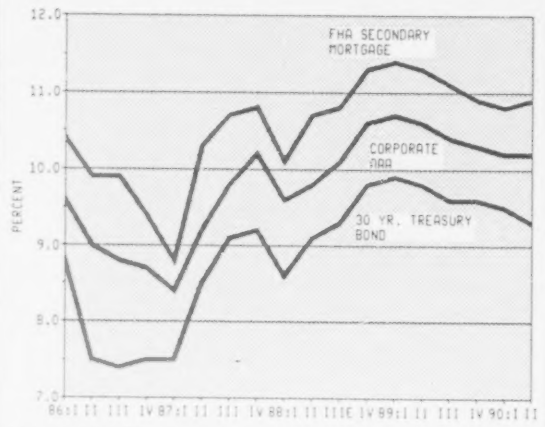
As the Fed attempts to manage economic growth through this period of strong concerns over an overheated economy and faster rates of inflation, many potential homebuyers are faced with making an important financial decision: whether to choose a fixed or adjustable rate mortgage (ARM). (This newsletter is not a replacement for the advice of real estate and financial professionals.) The most recent data shows that nearly two-thirds of homebuyers closing on home purchases during August chose an ARM. One of the most important factors in this decision is the spread between the fixed and adjustable rates. The data in the graph presents this spread for rates which are adjusted for the value of points (hence, effective rates). The availability of ARMs has helped buyers purchase larger, higher quality (and more expensive) homes than they could have qualified for with a fixed rate. For the housing sector, the popularity of ARM's has helped extend the current housing cycle, helping to explain the continued strength of existing home sales.

REAL ESTATE MARKETS

Housing Starts

Total housing starts slowed in August to a seasonally adjusted annual rate of 1.436 million units, down 3.3 percent from July's rate of 1.485 million units and 9.3 percent below the August 1987 rate of 1.583 million units. The slowdown was due to a retreat in starts of multi-family structures with five or more units, which fell 21.9 precent in August to an annual rate of 289 thousand units. This drop followed July's 19 percent rise, demonstrating the high volatility in starts of these units. Starts of these units have been affected by the recent tax legislation, rising interest rates, and high apartment vacancy rates (11.8 percent in the second quarter). In contrast, single-family starts reached an annual rate of 1.086 million units in August, up 2.1 percent from July's rate of 1.064 million units. However, as higher interest rates continue to put downward pressure on housing demand, starts of single-family units are expected to slow, falling to a rate of 989 thousand units in 1989.

GRAPH 4: LONG-TERM INTEREST RATES

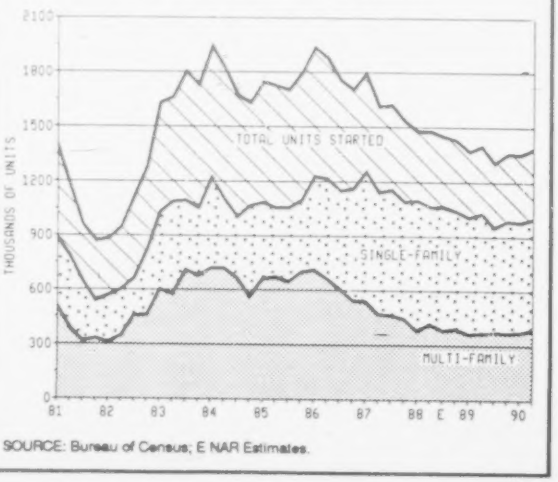


SOURCE: The Federal Reserve Board.

GRAPH 5: THE SHARE OF ARM'S IS GROWING

SOURCE: The Federal Home Loan Bank Board..

GRAPH 6: HOUSING STARTS



SOURCE: Bureau of Census; E NAR Estimates.

Housing Starts By Region

The only region to experience any significant gains in housing starts during August was the West, where starts rose 14.3 percent from July to a seasonally adjusted annual rate of 424 million units, the West's fastest pace since November of 1987. Starts in the West rose 0.7 percent over their August 1987 annual rate of 421 thousand units. In contrast, housing starts in both the Northeast and the Midwest fell sharply in August, tumbling 20.7 percent in the Northeast to a seasonally adjusted annual rate of 207 thousand units, and 17.2 percent in the Midwest to a rate of 240 thousand units. Compared with the pace set last August, starts were down 16.9 percent in the Northeast and 12.4 percent in the Midwest. In the South, starts were relatively flat in August, rising less than one percent to an annual rate of 565 thousand units. However, this marked an 11.5 percent drop from last August's annual rate of 639 thousand units and it may be one of the first signs of an overbuilt market in the Southeast, where high vacancy rates are expected to slow construction in the future.

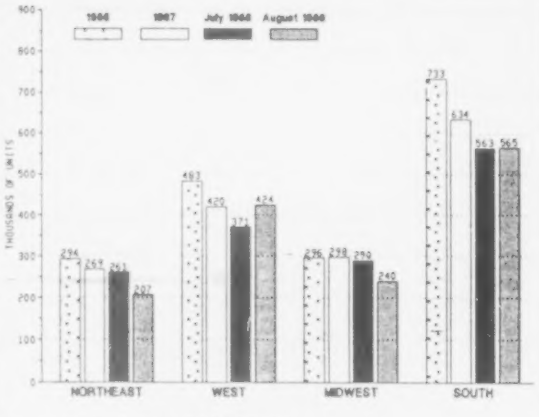
New Home Sales

New home sales during the month of August were unchanged from July, with the seasonally adjusted annual rate of new single-family home sales creeping up by a fractional 0.1 percent to 713 thousand units, from July's rate of 712 thousand units. The August rate, which was 6 percent faster than that of a year ago, marks the third month in a row that new home sales have exceeded 700 thousand units, a pace reached last in April, 1987. In the Midwest, where the rate of new home sales has fluctuated around 90 thousand units since March, sales jumped 10.8 percent to an annual rate of 103 thousand units. Sales in the West fell by a surprising 5.2 percent to a 217 thousand unit annual rate. During the six months preceeding this drop, new home sales in the West increased by 40 percent, to an annual rate of 229 thousand units in July, from February's rate of 164 thousand units. In the Northeast, sales reached an annual rate of 107 thousand units, 2 percent above July's rate, but 4.5 percent below the 112 thousand unit rate of last August. Sales were up only 0.3 percent in the South to a rate of 287 thousand units, 3.6 percent faster than the rate of sales a year ago.

Existing Home Sales

After falling 5 percent in July, sales of existing single-family homes held their ground in August, increasing to a seasonally adjusted annual rate of 3.67 million units. The August pace was 1 percent above the July annual rate of 3.63 million units, and 7.6 percent faster than August 1987, when existing homes were sold at a seasonally adjusted annual rate of 3.41 million units. Sales of existing homes, which have been surprisingly strong this quarter despite the rise in interest rates, owe much of their recent strength to continued economic growth and extremely low rates of unemployment. However, as the steam from this economic expansion cools, existing single-family home sales are expected to moderate. In the fourth quarter of 1988, the annual rate of existing single-family home sales is expected to reach 3.43 million units, before declining to a 3.29 million unit pace in 1989.

GRAPH 7: HOUSING STARTS BY REGION



Source: Bureau of Census; E NAR Estimates

GRAPH 8: NEW HOME SALES

Source: Bureau of Census.; E NAR Estimates.

GRAPH 9: EXISTING SINGLE-FAMILY HOME SALES

Source:: NAR, E NAR ESTIMATES

Existing Home Sales By Region

Regionally, existing single-family home sales reflected the little changed, strong annual rate experienced across the nation, with changes occuring only in the Northeast and the South. In the Northeast, sales fell 2.9 percent in August to a seasonally adjusted annual rate of 670 thousand units, down from July's rate of 690 thousand units and exactly even with the rate of sales in August, 1987. Sales in the South reclaimed all of the ground they lost in July, rising 4.4 percent in August to a seasonally adjusted annual rate of 1.42 million units. Existing home sales have been particularly strong in the South during the past few months, putting August's sales 10.1 percent above the rate of 1.29 million units set a year ago, and just 2.7 percent below the South's all time high of 1.46 million units in November of 1986. In the Midwest, sales held steady at a seasonally adjusted annual rate of 910 thousand units, which was 5.8 percent faster than the August 1987 annual rate of 860 thousand units. Sales in the West remained at an annual rate of 650 thousand units, 10.2 percent faster than last year's rate of 590 thousand units.

Home Prices

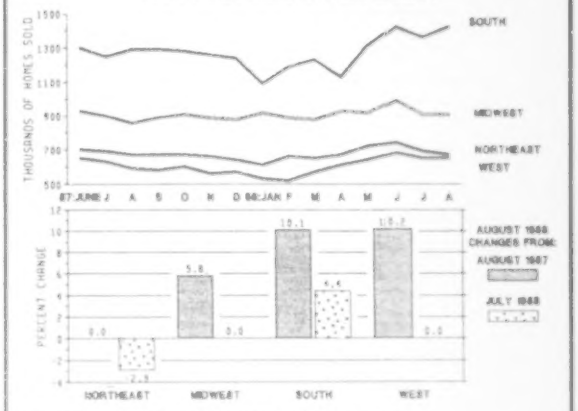
The median price of an existing single-family home changed only slightly in August, inching up $600 (0.66 percent) to $91,300 from the July median price of $90,700. However, the August price registered a gain of 5.5 percent over that of a year ago when the median price of an existing single-family home was $86,500. Meanwhile, the median price of a new home, which jumped by 6.7 percent in July, fell by 6.7 percent in August to $112,000, landing 4.9 percent above last August's price of $106,800.

Home Prices By Region

In the West, the median price of an existing single-family home fell in August for the second consecutive month to $122,000, down 2.6 percent from July when the median home was sold for $125,300 and 4 percent below June's price of $127,000. However, homes in the West appreciated by 6 percent, with respect to one year ago. The median sales price of a home in the Northeast rose by a modest $100 dollars in August to $144,800, putting it 6.7 percent above last August's sales price of $135,000. While the annual rate of home price appreciation in the Northeast is competitive with that of the rest of the nation, it undoubtedly seems slow to a region where home prices accelerated by 17.9 percent in 1986 and 28.5 percent in 1987. During that time, the national median price appreciated by 6.4 and 6.6 percent for 1986 and 1987, respectively. In the South, the price of an existing home was down 0.5 percent to $84,300, 4.3 percent higher than last August's price, and in the Midwest, prices increased by 1.4 percent to $70,500, 6.0 percent above the median price of one year ago.

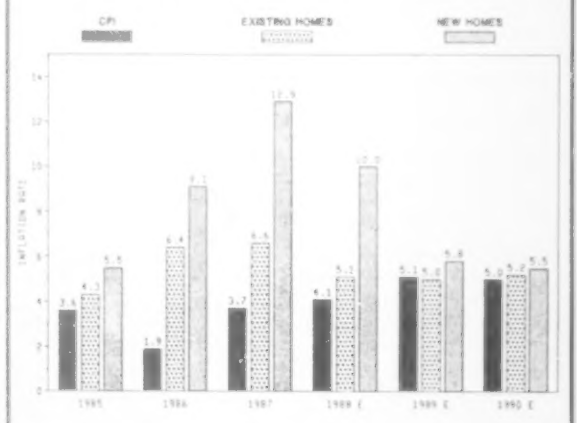
Sean Burns,
Director of Forecasting
Beth Maerz,
Research Associate
Forecasting & Policy Analysis Division

GRAPH 10: EXISTING SINGLE -FAMILY HOME SALES BY REGION



Source: NAR Economics and Research; E NAR Estimates

GRAPH 11: HOME PRICES



Source: NAR Economics and Research.

GRAPH 12: HOME PRICES BY REGION

Source: NAR Economics and Research; E NAR Forecasting & policy.

SOCIAL AND ECONOMIC BENEFITS OF HOMEOWNERSHIP:

NAR Survey Data Revisited

INTRODUCTION

People value and seek homeownership for many reasons. Ownership means the freedom to use or modify a dwelling as the owner-occupant sees fit. There is a pride and permanence in ownership which leads, in part, to better-maintained housing. Moreover, homeownership (usually, single-family dwellings) satisfies many personal needs, such as privacy. The article "Obstacles to Becoming a First-Time Homebuyer: A Look at NAR Survey Data," in the August, 1988 *Real Estate Outlook*, focused on these *individual* benefits of homeownership and the obstacles confronting those wishing to obtain it, using data from the 1986 NAR Homeownership Survey. See it for a brief discussion of the survey.

The present article utilizes the same survey data but focuses on the larger social benefits that follow from the individual pursuit of homeownership. Households with a greater stake in the community are more involved in local, and even national, issues. Homeowners' greater involvement in government reflects that policies affecting their neighborhoods and local public services ultimately impact the investment value of their homes. Their greater stake in society heightens their concern as citizens and neighbors.

Often attributed to homeownership, a better-maintained housing stock extends the life span of housing, which then makes it more readily usable in future decades. Homeownership also provides a vehicle for long-term savings and wealth accumulation. The "forced" savings through homeownership provides households with a pool of wealth, home equity, which makes them more self sufficient. Collectively, this individual household savings adds to the economy's savings and consequently to its ability to invest in the capital stock necessary to the nation's economic growth and well-being.

COMMUNITY, POLITICAL AND CHARITABLE ORGANIZATION INVOLVEMENT

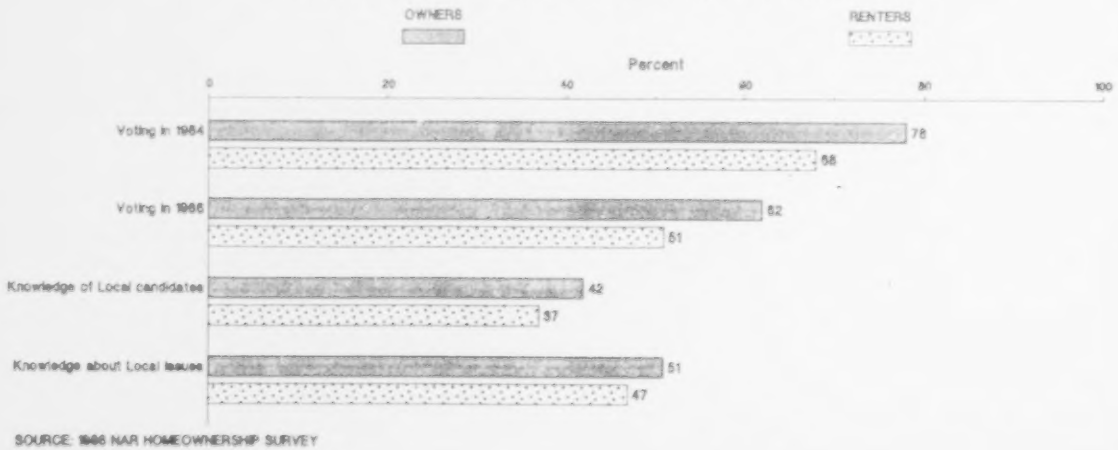
The NAR survey results show that homeowners are more politically active, as supported by their greater rate of voter registration, participation in general elections, knowledge of national and local issues and candidates, money and time contributions to various political action committees, and attendance at public hearings of local governments. Moreover, a greater percentage of homeowners indicate contributions of both time and money to community programs and charitable and religious organizations.

The greater "citizenship" participation of homeowners holds even when controlling for other factors such as age and income. Among middle-income ($15,000 to $30,000 in 1984) households under age 40, 62 percent of homeowners voted in 1986 while 51 percent of renters did; a greater share of homeowners also voted in 1984. See Chart 1. Moreover, 42 and 51 percent of these young, middle-income homeowners indicated substantial knowledge of local political candidates and had substantial knowledge of the political issues affecting their communities, respectively, compared to 37 and 47 percent for renters.

Table 1 shows that homeowners tended to be more "volunteering" of their time. For middle-income

CHART 1: COMMUNITY AND POLITICAL INVOLVEMENT

(HOUSEHOLDS UNDER 40, 1984 INCOMES BETWEEN $15,000 AND $30,000)



SOURCE: 1986 NAR HOMEOWNERSHIP SURVEY

Table 1

Time Volunteered to Charitable Organizations

(Percent of Households Volunteering Within Last 2 Years)

	Under 40 Years Old		40 - 60 Years Old	
	Homeowners	*Renters*	*Homeowners*	*Renters*
Income				
Under $15,000	31%	27%	35%	37%
$15,000 - $30,000	41	35	46	38
Over $30,000	41	38	53	47

Source: 1986 NAR Homeownership Survey.

households under 40 years old, 41 percent of homeowners indicated that they had volunteered time to charitable/religious organizations within the past two years, while 35 percent of renters had. Even for older households (age 40-60), the spread was evident: 46 percent to 38 percent for homeowners and renters, respectively.

The evidence from NAR's survey supports the conclusions of other studies. In particular, one such study finds that homeownership *per se* makes a household more likely to espouse traditional values, more likely to be involved in volunteer activities and more likely to socialize informally with neighbors.[1] All told, then, homeownership enhances citizenship.

Table 2
Maintenance Effort and Housing Conditions by Tenure
(Percent of Households)

	Homeowners	Renters
Maintenance Efforts		
Maintenance in prior year:		
No	19%	47%
Yes	81	53
Maintenance expenses $100+:		
No	50	78
Yes	50	22
Housing Conditions		
Interior problems:		
No	98	87
Yes	2	13
Exterior problems:		
No	97	81
Yes	3	19
Structural problems:		
No	98	84
Yes	2	16

Source: George C. Galster, "Empirical Evidence on Cross-Tenure Differences in Home Maintenance and Conditions," *Land Economics*, Vol. 59, (1983).

MAINTENANCE OF THE HOUSING STOCK

Another societal benefit of homeownership is better preservation of the housing stock. One recent study found that owner-occupants exhibited a significantly greater level of maintenance effort than occurred in rental housing. See Table 2. The table also shows that persistently greater maintenance has apparently led to housing in better condition, as evidenced by fewer structural and other problems in owner-occupied housing. Even comparing households of similar incomes, the superiority of owner-occupant maintenance efforts and housing conditions generally persists.

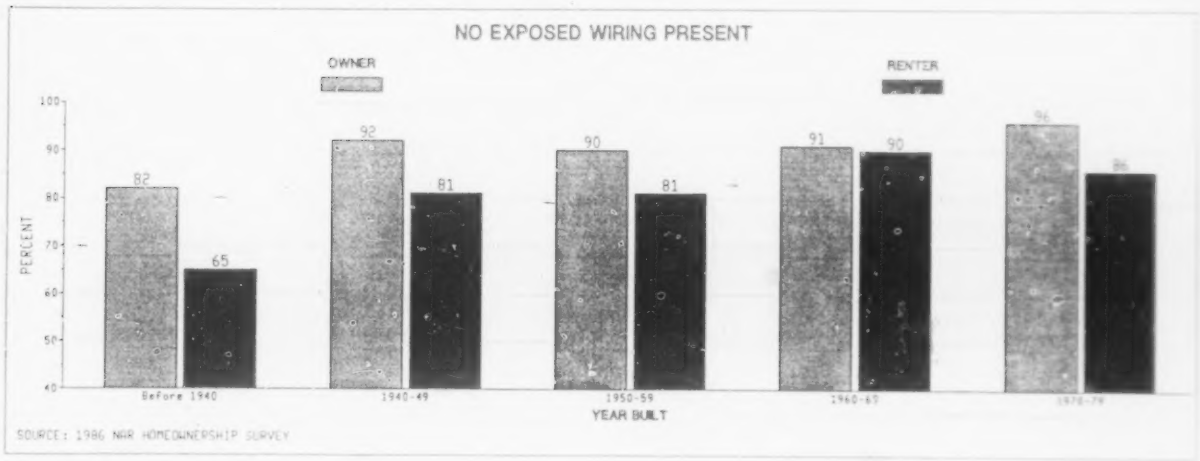
Similar evidence obtains from NAR's survey, which shows that owned homes are generally in better condition (maintained better over the years) than similar rented homes. The 1986 NAR Homeownership Survey provides information on the existence/seriousness of defects in respondents' homes. Not surprisingly, *both* owners and tenants of newer single-family detached housing express fewer problems with wiring, cracks and water leakage than owners and tenants of older housing; however, even within the "newer" homes, there were cross-tenure differences in maintenance. See Chart 2. Indeed, for each vintage of homes, homeowners generally have cited fewer problems than renters with both interior and exterior maintenance of their homes.

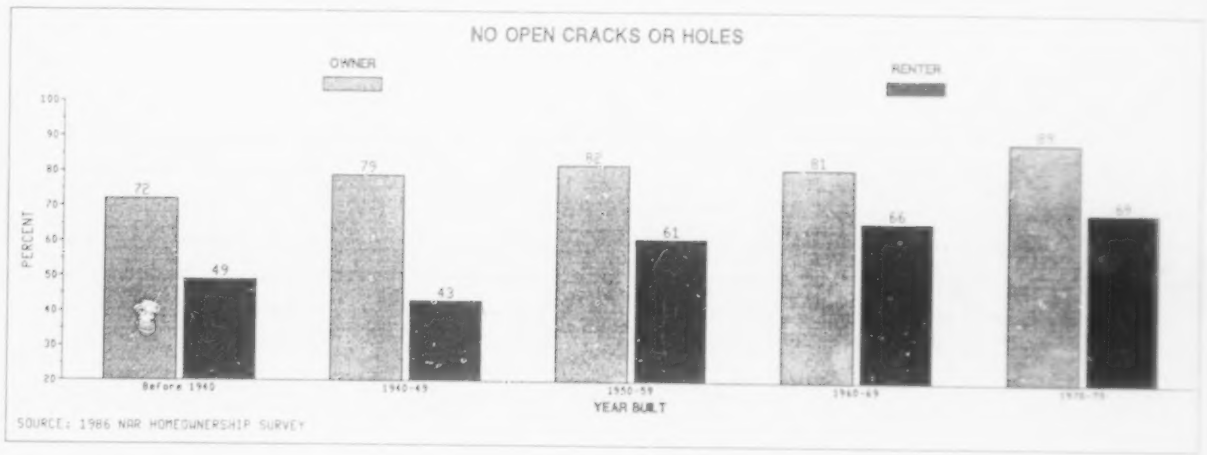
The differences between tenures in condition/maintenance are most pronounced for older housing. For housing built before 1940, in 1986 renters reported a much greater incidence of problems with exposed wiring, open holes/crack, and water leakages from roof/ceiling, ranging between 13 and 23 percentage points. But, even for newer homes (built between 1970 and 1979), homeowners indicated fewer and less serious maintenance problems and structural defects, on the same order of magnitude.

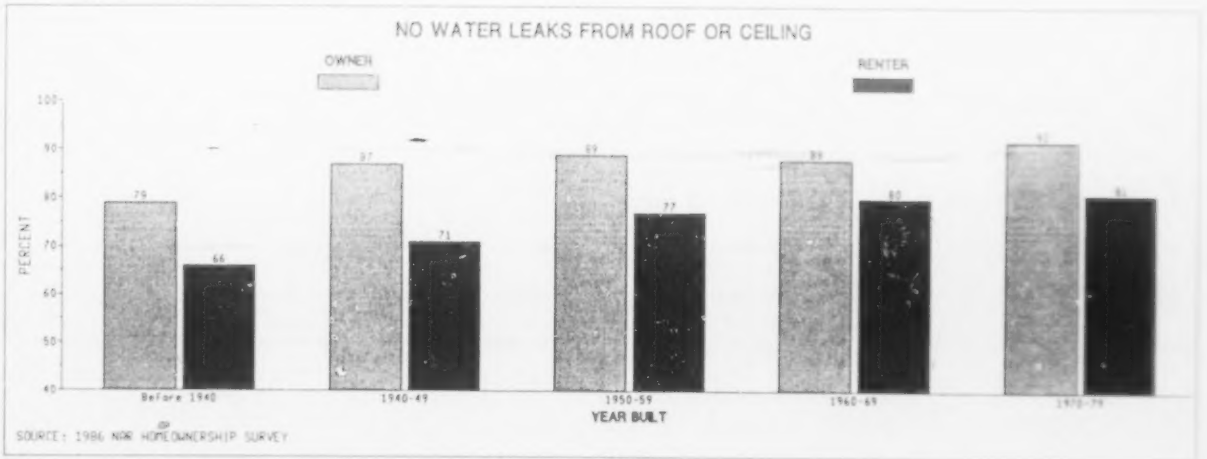
Besides the economy-wide advantage of a longer-lived housing stock overall, the greater maintenance associated with homeownership also has important benefits to neigh-

[1] Ronald Krumm, "Homeownership and Household Savings Behavior: A Study of Panel Data Patterns," report prepared for the National Association of Realtors, June 1985. (Mimeographed.)

Chart 2
Incidence of Maintenance and Quality Problems Reported in 1986 (Single-family Detached Only) Owners vs. Renters
(Percent who responded "no problem at all")







borhoods. When owner-occupants in a neighborhood all maintain their homes, it raises the quality of the neighborhood, as well as the value of all the houses in that neighborhood. That is, maintenance of houses -- encouraged by homeownership -- enhances the livability and desirability of entire neighborhoods.

INDIVIDUAL AND SOCIAL BENEFITS OF SAVING THROUGH A HOME

There are many benefits to saving through a home. For one thing, the individual homeowner benefits through the tax deferral of capital gains realized upon a home sale (if gains are rolled over into another house of equal or greater value within two years). This and other tax incentives encourage households to accumulate home equity, that is, to hold a substantial share of their wealth in this form. Because housing is such a valuable asset and represents such a relatively large store of wealth, households will maintain it better, as we document above. The increased maintenance of owner-occupied housing contributes to a higher-quality housing stock, not to mention the future savings from the decreased need for repairs and rehabilitation expenditures.

Furthermore, as a result of the one-time exclusion of capital gains from taxation, homeowners 55 years or older can generate untaxed savings and withdraw equity from their homes (e.g., selling their homes) for meeting expenditure needs and wants in retirement.

These incentives to save through home equity lead to home equity as households' predominant form of savings. According to the Federal Reserve's Survey of Consumer Finances, home equity accounts for over one half of the total wealth of a typical household.

The NAR survey data bear out that home equity occupies an important place in homeowners' savings/investment portfolios, particularly the portfolios of first-time homeowners. Of all the first-time homeowners in the NAR survey, over one-half (56%) indicated that they had saved/invested less than five percent of their incomes in each of the prior five years; and one-quarter of them saved less than one-percent. This lack of non-home equity savings is even more pronounced for young first-time homeowners. Of those under 40 years old, almost two-thirds of them saved/invested less than five percent of the their household income during the preceding five years; and 35 percent saved less than one percent. See Table 3.

It has been suggested that government incentives to increase investment in housing, i.e., through preferential tax treatment, may reduce the level of investment in the non-housing sectors of the economy and lead to a possible misallocation of resources. However, one study suggests that a household's decision to buy its home (as opposed to renting) generally raises the *level* as well as changes the *composition* of its savings portfolio.[2] A greater homeownership rate may well raise the aggregate supply of funds available for all types of investment in the economy.

CONCLUSIONS

The benefits of homeownership transcend the individual homeowner. The evidence from the NAR survey substantiates that homeowners generally vote more often and are more involved in local political and charitable activities than otherwise comparable renters. Also, there is considerable evidence that homeowners maintain their housing in better condition than do comparable renters, which contributes to a long-lived and more useful national housing stock. Moreover, greater homeownership apparently leads to a higher level of national savings in addition to being vital to individual households' portfolios.

In short, there are numerous benefits of homeownership -- both to individuals and to the larger society.

[2] Terry C. Blum and Paul William Kilyston, "Homeownership and Social Attachment," Sociological Perspectives, 27 (1984), pp.159-80.

by
Daniel N. Chambers
Director of Housing Research
and
Mary B. Schwartz
Housing Economist

Table 3: Non-Home Equity Savings:
(First-time Homeowners Under 40 Years)

Percentage of income saved /invested over the prior 5 years	Percentage of homeowners indicating saving/investing	Cumulative percent
Less than 1 percent	34.6%	34.6%
1 to 5 percent	31.4%	65.9%
6 to 10 percent	15.4%	81.4%
11 to 15 percent	6.2%	87.6%
16 to 20 percent	4.1%	91.6%
more than 20 percent	4.3%	95.9%
No response	4.1%	100.0%

Source: 1986 NAR Homeownership Survey.

U.S. ECONOMIC OUTLOOK

October 1988

	QUARTERS								YEARS				
	ACTUAL		FORECAST						ACTUAL		FORECAST		
	88.1	88.2	88.3	88.4	89.1	89.2	89.3	89.4	1986	1987	1988	1989	1990
AGGREGATE ECONOMY													
Gross National Product (billions of dollars)	4725	4824	4912	4992	5094	5174	5246	5314	4240	4527	4863	5207	5548
% Change	5.4	8.7	7.5	6.7	8.4	6.5	5.6	5.3	5.6	6.8	7.4	7.1	6.6
% Change (w/out inflation)	3.4	3.0	3.1	2.2	3.6	2.4	2.1	1.9	2.8	3.4	3.9	2.7	2.5
Consumer Price Inflation (CPI)	3.4	4.8	4.9	5.0	5.3	5.2	4.8	4.6	1.9	3.7	4.1	5.1	5.0
GNP Inflation (GNP Deflator)	1.7	5.5	4.5	4.4	4.7	4.0	3.5	3.4	2.7	3.3	3.3	4.3	4.0
Unemployment Rate - Civilian	5.7	5.4	5.5	5.5	5.5	5.6	5.6	5.6	7.0	6.2	5.5	5.6	5.6
Civilian Employment-Household Basis (millions)	114.2	114.6	115.2	115.8	116.1	116.4	116.8	117.2	109.6	112.4	115.0	116.6	118.1
Percent change	2.6	1.5	1.9	2.3	0.9	1.1	1.2	1.3	2.3	2.6	2.2	1.4	1.3
Index of Industrial Production	134.5	136.0	138.1	139.0	139.0	139.5	140.2	140.8	125.1	129.8	136.9	139.9	142.9
Manufacturing Capacity Utilization	82.7	83.2	83.8	83.8	83.3	83.4	83.6	83.5	79.7	81.0	83.4	83.4	83.7
Domestic Auto Sales	7.6	7.5	7.5	7.3	7.1	7.1	7.1	7.0	8.2	7.1	7.5	7.1	7.0
Federal Tax Receipts (NIPA) as % of GNP	20.1	20.4	20.0	20.1	20.1	20.2	20.2	20.2	19.5	20.2	20.1	20.2	20.7
Federal Expenditures (NIPA) as % of GNP	23.4	23.1	22.9	22.8	23.0	23.0	22.9	22.9	24.4	23.7	23.1	22.9	22.9
Deficit(NIPA)	-155.1	-133.3	-143.4	-139.0	-144.6	-143.6	-144.7	-145.8	-205.6	-157.8	-142.7	-144.7	-121.8
as % of GNP	-3.3	-2.8	-2.9	-2.8	-2.8	-2.8	-2.8	-2.7	-4.9	-3.5	-2.9	-2.8	-2.2
REAL ESTATE MARKETS													
HOME SALES													
Total Single-family Home Sales (thousands, single-family resales plus 97 percent of single-family starts)	4314	4660	4636	4435	4225	4336	4317	4106	4712	4648	4511	4246	4172
Percent change – year ago	-10.1	-0.8	2.3	-0.3	-2.0	-7.0	-6.9	-7.4	10.8	-1.4	-2.9	-5.9	-1.7
Existing Single-family Home Sales (thousands)	3250	3630	3605	3425	3250	3340	3410	3150	3565	3526	3478	3288	3205
Percent change – year ago	-10.1	0.6	5.1	1.0	0.0	-8.0	-5.4	-8.0	10.9	-1.1	-1.4	-5.5	-2.5
Housing Starts (thousands)	1477	1477	1445	1430	1368	1395	1308	1355	1812	1634	1457	1356	1382
Percent change – year ago	-17.0	-8.0	-10.7	-6.7	-7.4	-5.6	-9.5	-5.3	4.1	-9.8	-10.8	-6.9	1.9
Single-Family Units	1097	1062	1063	1041	1006	1027	936	986	1183	1157	1066	989	997
Percent change – year ago	-11.9	-6.6	-7.9	-4.5	-8.3	-3.3	-12.0	-5.3	10.4	-2.2	-7.9	-7.2	0.9
Multi-Family Units	380	415	382	389	362	368	372	369	630	477	392	368	384
2-4 Family Units	56	57	52	53	50	50	51	50	85	66	55	50	53
Percent change – year ago	-29.0	-21.3	-5.7	-5.7	-12.2	-11.4	-2.6	-5.3	-9.0	-22.6	-17.0	-8.0	4.5
5+ Family Units	324	358	330	336	313	318	322	318	545	412	337	318	332
Percent change – year ago	-28.7	-9.6	-19.3	-13.1	-3.3	-11.3	-2.6	-5.3	-5.6	-24.4	-18.1	-5.8	4.5
New Single-family Home Sales (thousands)	630	697	705	610	590	630	615	570	750	671	661	601	550
Percent change – year ago	-12.9	3.4	4.4	-1.8	-6.3	-9.6	-12.8	-6.6	9.0	-10.5	-1.6	-9.0	-8.5
Mobile Homes Shipped (thousands)	206.7	219.7	202.9	209.5	207.2	208.1	213.9	219.0	245.5	232.8	209.7	212.0	224.8
HOME PRICES													
Existing Home Prices - Median $(1000)	87.8	88.9	91.2	91.8	92.3	94.2	95.0	96.2	80.3	85.6	89.9	94.4	99.3
Percent change – year ago	4.2	4.5	6.7	8.0	5.1	6.0	4.2	4.8	6.4	6.6	5.1	5.0	5.2
New Home Prices - Median $(1000)	112.9	112.9	115.5	116.3	117.4	121.3	122.0	123.7	92.0	104.0	114.4	121.1	127.7
Percent change – year ago	16.0	9.1	8.8	4.1	4.0	7.4	5.6	6.4	9.1	12.9	10.0	5.8	5.5
FINANCIAL MARKETS													
Long-Term Interest Rates													
30-year FRM (FHA Secondary)	10.1	10.7	10.7	11.0	11.2	11.3	11.0	10.8	9.9	10.2	10.6	11.1	10.7
1-year ARM (without buydown)	7.5	7.6	7.6	7.8	8.1	8.2	8.2	8.3	7.9	8.2	7.6	8.2	7.8
Corporate AAA Bond Rate	9.6	9.8	10.2	10.5	10.6	10.8	10.5	10.3	9.0	9.4	10.0	10.6	10.2
Government Bond Rate	8.6	9.1	9.5	9.7	9.9	10.0	9.7	9.6	7.8	8.6	9.2	9.8	9.4
Short-Term Interest Rates													
Federal Funds Rate	6.7	7.1	8.1	8.3	8.5	8.7	8.6	8.3	6.8	6.7	7.6	8.5	8.0
3-month T-Bill Rate	5.7	6.2	7.2	7.4	7.6	7.7	7.6	7.4	6.0	5.8	6.6	7.6	7.1
Prime Rate	8.6	8.8	9.8	10.2	10.3	10.3	10.1	9.9	8.3	8.2	9.4	10.2	9.7
Discount Rate	6.0	6.0	6.4	6.7	6.9	6.9	6.9	6.9	6.3	5.7	6.0	6.5	6.7
Value of the U.S. Dollar (Trade-Weighted Avg.)	90.0	90.4	97.4	96.5	93.3	90.4	86.7	84.3	112.3	96.9	93.6	88.7	82.4
Percent change	-9.4	1.7	34.5	-3.7	-12.5	-11.9	-15.4	-10.5	-21.6	-13.6	-3.5	-5.2	-7.0

Source: Forecast produced using Laurence H. Meyer and Associates' model of the U.S. economy.
Assumptions and simulations by Dr. John Tuccillo, Dr Frederick Flick, Sean Burns and Beth Maerz.

EQUAL HOUSING OPPORTUNITY